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**REPORT FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN
PARLIAMENT**

**Eleventh Annual Report 2016 on the implementation of Community assistance under
Council Regulation (EC) No 389/2006 of 27 February 2006 establishing an instrument of
financial support for encouraging the economic development of the Turkish Cypriot
community**

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1. INTRODUCTION

Council Regulation (EC) No 389/2006¹ (the "Aid Regulation") is the basis for the provision of assistance to the Turkish Cypriot community (TCc) and requires annual reporting to the Council and the European Parliament. This report covers the year 2016.

2. PROGRAMMING OF THE ASSISTANCE

Between 2006 and the end of 2016, EUR 450.2 million was programmed for operations under the Aid Regulation. The amount committed in December 2016 for the 2016 annual programme was EUR 33,408,392². The Multiannual Financial Framework (MFF) 2014-20 provides a multi-annual perspective to the programme with a provision for stable, annual funding. The assistance programme is, however, temporary in nature, aiming to facilitate the reunification of Cyprus, and both the Aid Regulation and Council Regulation No 1311/213³ laying down the MFF allow for a revision in case of reunification.

3. IMPLEMENTATION MECHANISMS

The programme is implemented in the areas of the Republic of Cyprus in which the Government of the Republic of Cyprus does not exercise effective control and where the application of the *acquis* is temporarily suspended pursuant to Protocol 10 of the Treaty of Accession. Assistance is implemented primarily through direct management by the European Commission, but some projects are indirectly managed by the United Nations Development Programme (UNDP), the European Bank for Reconstruction and Development (EBRD) or the British Council.

The Commission operates in a unique political, legal and diplomatic context. *Ad hoc* arrangements are needed to implement the programme while respecting the principles of sound financial management. In EU-funded aid programmes, in normal circumstances, agreements with a beneficiary government would establish the legal framework for development assistance. No such agreements can be made for the assistance to the TCc. Management and mitigation of the inherent risk is part of the Commission's responsibility and measures adopted include intensive monitoring of contracts and provision of support to beneficiaries, revised payment conditions and a careful approach to the use of bank guarantees. The assistance includes a significant amount of grant support, requiring resource-intensive management.

To ensure successful and sustainable implementation in this environment, the TCc must fully engage in the preparation for the *acquis* roll-out following settlement.

¹ OJ L65, 7.3.2006, p.5.

² Commission Decision C(2016) 6688.

³ OJ L347, 2.12.2013, p.884.

The Programme Team operates through the EU Programme Support Office (EUPSO) in the northern part of Nicosia. The Representation of the Commission in Cyprus also hosts meetings, seminars and press conferences and communicates with the Cypriot public throughout the island, including on the Aid Programme, and also via the EU infopoint that is itself funded under the Aid Programme.

4. IMPLEMENTATION DURING THE REPORTING PERIOD

4.1. General overview

The Commission continues to implement the Aid Regulation with the overall aim of supporting reunification. The Commission stands ready to adapt the programme as a result of any agreements reached in the settlement talks, and action was taken to finance the opening of two new crossing points as a confidence building measure.

Operations in 2016 included the continuation of a number of established and successful projects, such as EU scholarships and confidence building measures in support to the Committee on Missing Persons (CMP) and the Technical Committee on Cultural Heritage (TCCH).

Assistance provided to key economic sectors preparing for a settlement was reinforced through projects for the development of the private sector, and rural and human resources.

Considerable gaps in the capacity of the beneficiaries to effectively implement the acquis still exist, and extensive adaptation is required to reach this goal. However, the TCc has a firmer understanding of the challenges.

Grant support remains an essential element of the programme. The Commission continued to make recourse to outsourcing, to help ensure that grants reach the beneficiaries in a timely and efficient manner.

Since 2008, a Project Management Unit (PMU) set up through a technical assistance service contract has been providing services to support the implementation of grant schemes. This PMU continues to offer valuable help to the Commission in terms of increased efficiency and assurance in the operational management, implementation and monitoring of grant schemes.

One continuing issue concerns the construction of the Famagusta sewage network, which was terminated in December 2013 by the Commission. The dispute with the former contractor has not been resolved. However, in 2016, an engineering firm contracted by the Commission carried out a thorough study on the necessary remedial works, their cost and the relevant tender dossier. This study is being finalised.

At the end of the year, 252 contracts were overall running under the Programme.

As regards the Commission's administration, the tasks and resources of the former Task Force for the Turkish Cypriot community were transferred to the Secretariat General's Structural Reform Support Service (SRSS) in 2016. The SRSS is tasked with the coordination of the work of all Commission services involved in supporting the Cyprus settlement process under UN auspices. Together with the team supporting President Juncker's Personal Representative, it formed a new unit "Cyprus Settlement Support". This transfer did not change the mandate given to the Commission under the Aid Regulation.

4.2. Progress by objectives

The overall objective of the Aid Programme is to facilitate the reunification of Cyprus by encouraging the economic development of the TCc, with particular emphasis on the economic integration of the island, on improving contacts between the two communities and with the EU, and on preparation for the *acquis*. The activities undertaken in 2016 with respect to each of the objectives of the Aid Regulation were:

4.2.1. Objective 1: Developing and restructuring of infrastructure

The part of the Next Generation Network telecommunications equipment for delivering data (internet) services, already provisionally accepted was running without major incidents. However, the billing module required for delivering voice services has not yet been completed. Discussions took place with the supplier on how and when final tests could be executed for the delivery of a full Provisional Acceptance Certificate in 2017.

Technical assistance on traffic safety continued in order to accompany the beneficiary in the reforms in the sector. Following a comprehensive assessment of the situation, focus was put on amending the vehicle registration process as the first step in setting up a vehicle inspection system aligned to international standards.

The bi-communal Nicosia Wastewater Treatment Plant (WWTP) at Mia Milia/Haspolat has been producing clean effluent since 2012, but a number of related projects still have to be carried out. The design of the new trunk sewer serving the whole of Nicosia and connecting to the bi-communal WWTP made good progress and the preparation of the Works tender to construct the sewer was initiated. The two communities reached an agreement on sharing the treated WWTP effluent; a feasibility study for and design of the distribution system up to the buffer zone is underway, along with assistance for promoting agricultural use of the stabilised sewage sludge produced by the plant.

In 2016, an engineering firm carried out the study to identify the necessary remedial works for the Famagusta sewage networks and related cost. This study is being finalised.

Assistance in the solid-waste sector continued through different actions. The installation of a new sterilisation facility for treatment of hazardous medical waste was delayed as the beneficiary's premises were not ready to accommodate the new equipment. This was eventually resolved and project implementation had resumed by year end. Also, a tender dossier was prepared for the extension to the Koutsoventsis/Güngör landfill, including specifications for a leachate-treatment unit. Four waste transportation trucks, reinforcing the fleet available to the local communities to transport waste to the central landfill, were delivered. However, additional investment in waste trucks, as well as in other waste-management infrastructure (transfer stations, closure of illegal dumpsites), needs further preparation on the side of the beneficiary. A project for setting up a collection, transport and central-treatment system for animal by-products, which are most dangerous for human health, was prepared and tendered. Finally, solid waste management was also addressed in grant schemes supporting civil society and local communities.

The beneficiary informed the Commission that it wished to take over the finalisation of the construction of information and management centres in four potential *Natura*

2000 areas using its own budget. Those partially constructed buildings were the subject of a contract that terminated in 2011 and were to be completed under a Delegation Agreement with the UNDP signed in 2014.

4.2.2. *Objective 2: Promoting social and economic development*

The Technical Assistance to the Private Sector (TAPS) project, launched in November 2015, continued. This project aims at promoting private sector growth and job creation. It provides technical assistance to local bodies to prepare for the application of the *acquis* in areas linked with the development of the private sector. The support takes the form of analytical studies and preparation of strategies, including, for example, the finalisation of the Small-and-Medium Enterprises Strategy and Action Plan. It also assists Micro and Small-Sized Enterprises (MSMEs) to prepare for the *acquis* by supporting Business Support Organisations, which reinforce the organisational and service provision capacity of the former.

In September 2016, a single contract was signed with an external expert: to assess the viability of an innovation strategy in line with Horizon 2020 and the concept of SMART growth; and to investigate possible patterns of integration with the government controlled areas.

In addition, in February 2016, a Delegation Agreement was signed with the EBRD to grant Turkish Cypriot companies access to credit funds and to provide capacity-building support to local business consultants. Businesses are also supported directly through grants. Twenty-four projects funded under the *SME Development: Modernising Products and Services* grant scheme were still ongoing at the end of 2016.

In the field of rural development, technical assistance was launched to develop the capacity of farm-advisory services, including the preparation of a strategy. Out of the 39 projects awarded in 2013 under the 3rd Rural Development grant scheme, a further 13 were successfully completed in 2016.

Technical assistance to strengthen the capacity of veterinary services to secure and monitor compliance with animal health standards and other sanitary requirements for control of animal diseases and future trade of animal products, which started in mid-2015, continued in 2016. This remains a particularly challenging assignment.

A metrology project was launched to develop analytical services in the Turkish Cypriot community to the level where they can be relied upon to support analysis of foodstuffs and products in a manner compliant with EU *acquis* requirements in key areas.

The 4th call for proposals for Community Development was published on 8 April 2016 with an allocated budget of EUR 4.85 million. This new grant scheme offers the local communities the opportunity to submit proposals to improve the efficiency and quality of services. The main priorities are waste management services, cleaning and environmental services, social services targeting the elderly, women, children and youth, stray animals, management services, pest-control services and capacity building and the strengthening of management structures. Evaluations of the proposals received are ongoing.

In the *education sector*, 15 grants were awarded in 2016 under the EUR 1.5 million scheme for *Innovation and Change in Education VI*. Their objectives include

enhancing teaching/learning capacities, joint projects with Greek Cypriot schools, and improving the capacities for entrepreneurship and lifelong-learning. Out of the 15 projects, 9 are being implemented by schools and 6 by lifelong-learning organisations.

A new EUR 1.5 million grant scheme for *Innovation and Change in Education VII* was launched in the first half of 2016, covering the same objectives as the previous call for proposals. The evaluation of proposals is also ongoing.

In 2016, the second technical assistance project for Vocational Education, Training and Labour Market (VETLAM II) focused in particular on a review and update of the qualifications framework and on capacity building for employment services. The project is planned to end in November 2018.

Building on the results of previous analytical work, the second phase of the economic monitoring programme conducted by the World Bank provided additional in-depth analysis and technical assistance in important areas. The programme focused on fiscal analysis, financially-sustainable public administration bodies, economic, trade-related effects of reunification, private-sector development and social inclusion and macroeconomic monitoring. This programme is planned for completion in the second half of 2017.

4.2.3. *Objective 3: Fostering reconciliation, confidence building measures, and support to civil society*

The *Committee on Missing Persons* (CMP), supported by the Aid Programme through an indirect management arrangement with UNDP, continued its field and laboratory work. By the end of 2016, out of the 2001 total missing persons, the CMP had exhumed 1192 sets of remains, out of which 740 were genetically identified. After a slow down of identifications during 2015 due to an audit of DNA testing procedures, the rate increased in 2016 to the high numbers recorded in 2013 and 2014. Additional positions for investigators were opened and an archive project was established in July. In February 2016, religious leaders made a joint appeal for Cypriots to come forward with information. A book on the work of the CMP scientists was produced in three languages. It was presented in Cyprus and during events at the United Nations in New York, the International Red Cross Committee in Geneva and the European Parliament in Brussels, where Presidents Schultz and Juncker renewed their full support for this project, which is instrumental for reconciliation in Cyprus. In December 2016, the Delegation Agreement with UNDP was extended to provide funding for the operations of the CMP also for 2017, for an amount of EUR 2.6 million. Further EU support to the CMP operations will be based on its updated strategy for 2018-2020. Overall, in the period 2006-2016, the EU contributed in excess of 80% of the overall funding provided to the CMP by all donors.

Cultural Heritage protection through the bi-communal Technical Committee on Cultural Heritage (TCCH) remained a key component of the reconciliation and confidence building actions supported under the Aid Programme. During 2016, the main milestones of the programme included the start of conservation measures for the Martinengo Bastion and the Venetian walls between the Arsenal and the Othello Tower/Citadel in Famagusta. Also in 2016, works started for the conservation of Agia Marina/Gurpinar, a Maronite church located within a military site that was finally made accessible in 2016. The first phase of the conservation of Agios Panteleimonas in Myrtou/Çamlıbel village was finalized during 2016.

A Delegation Agreement for the fifth phase of the Cultural Heritage protection programme was signed with UNDP in December 2016. In the future, particular attention will continue to be given to conservation and caretaking of restored sites by the beneficiary communities.

In response to an initiative of the two Cypriot leaders for new confidence building measures, the Commission acted swiftly in 2015 to reallocate the necessary resources for the opening of the new crossing points at Deryneia and Lefka-Apliki. A Delegation Agreement with UNDP was signed in early 2016 for works north of the Green Line, which are expected to be completed in the first half of 2017.

Support for civil society continued in 2016. Technical assistance (Civic Space) - providing capacity building for Civil Society Organisations (CSOs) and stimulating networking and joint actions with Greek Cypriot and other EU CSOs - continued in 2016. Efforts concentrated initially on creating an enabling environment for the development of Civil Society and encouraging active citizenship initiatives through the "Grow Civic" mechanism. In addition, the eighteen grants awarded under the "Civil Society in Action IV and V" grant schemes were still running in 2016. They funded a variety of actions in the fields of the environment, human rights, art and sport, which encourage citizens' engagement and cross-community exchanges in those fields.

The Civil Society Forum (CSF), a platform where CSOs can express their expectations and priorities, was convened every three months. It acted as a catalyst for advocacy and promoted active citizenship. A full month of CSO actions under the name of "Open Door Festival" took place for the first time from mid-September to mid-October; the aim of these actions was to inform the public of past and present activities and promote volunteerism among people of all ages. During the Festival, more than 40 associations, foundations, platforms, initiatives and activists opened their doors and carried out more than 80 events, including open-door events and other community-oriented activities.

4.2.4. *Objective 4: Bringing the TCc closer to the EU*

The management of *scholarships to the EU* was delegated to the British Council for the academic years 2014-16. This arrangement was extended for a further three years through a Delegation Agreement signed with the British Council in December 2016, covering the academic years 2017-20. The EUR 1.92 million available under the 2016 call allowed 151 scholarships to be funded for the 2016/2017 academic year. These scholarships supported young students during the first year of undergraduate studies, graduate students in their masters' and doctoral programmes, and researchers and professionals to further develop their skills and knowledge across several EU Member States. The Scholarship Programme has ensured access to scholarships by more than 1000 Turkish Cypriot students and professionals since 2007. The continuity of this scheme is considered vital. As part of the activities to manage the Scholarship Programme, the British Council organised 'Study in Europe' days to provide information to students about study possibilities in the EU. It also continued to develop an alumni network and will monitor the medium-term impact, for example the return rate of students to Cyprus and the success rate in finding employment.

There is a high demand for information on the EU in the Turkish Cypriot community. The EU Infopoint, which is managed together with the Representation of the European Commission in Cyprus, started functioning in early 2015 with a total

budget of EUR 1,545,000 for a 30-month period. It generated a high level of visibility for the EU, its policies and the Aid Programme. Up to now, the EU Infopoint has held various panels/events on various topics, including environment (water, energy, waste management including recycling, and biodiversity), organic agriculture, health & safety at work, food safety, animal welfare and animal health. It has also covered topics such as human rights, rights of people with disabilities, children's rights, gender equality, LGTB rights, and consumer rights. In 2016, the EU Infopoint organised 47 events (of which 35 in Nicosia) including Europe Day, European Week Against Racism, European Youth Week & International Youth Day, European Night of Researchers, EU Anti-Trafficking Day, Mobility Week and Traffic Safety, European Week of Sport, and European SMEs Week. These events attracted over 4,382 participants, showing increased interest from the community (2,383 participants at 2015 events).

During 2016, 5,139 information products and 12 newsletters were distributed (in total since the opening of the Infopoint, 11,429 and 20 respectively). 564 news articles and 32 TV spots appeared on the local media during 2016 (923 and 82, respectively, since inception of the project). Traffic on the Facebook page "Abbilgi" also confirmed the popularity of the activities (3,896 new 'likes' in 2016, bringing the total number of likes since its opening to 8,471). The EU Infopoint also supported the promotion of all Calls for Proposals and other Aid-Programme-funded projects and events via Facebook posts/reminders, front-shop poster displays, hosting of events and project launches at its public space. It established strategic partnerships with other EU-funded projects and technical assistance projects such as Civil Society development (Civic Space), Private Sector development, Animal Disease Eradication, Waste Management, and with relevant departments and Civil Society Organisations in the TCc.

4.2.5. *Objectives 5-6: Preparing the Turkish Cypriot community to introduce and implement the acquis*

The Commission's Technical Assistance and Information Exchange (TAIEX) instrument is used to implement objectives 5 and 6 of the Aid Regulation and thus helps prepare the TCc for implementation of the *acquis* in view of the withdrawal of its suspension upon the entry-into-force of a comprehensive settlement of the Cyprus problem.

Assistance continued in 2016 around the same 16 main areas or 'sectors' of the *acquis* as in previous years. In total, the number of events organised in 2016 was 220. TAIEX actions included expert missions, training courses, workshops and study visits. TCc stakeholders demonstrated a significantly heightened awareness of *acquis* requirements in the active TAIEX sectors.

Support for trade across the Green Line (Regulation 866/2004) continued. The independent experts were involved in 2016 in carrying out the regular phytosanitary inspections of potatoes and citrus products, taking honey samples for analysis and producing an updated list of vessels whose catch can be traded across the Green Line.

4.3. Financial execution (contracts and payments)

4.3.1. *Contracting*

Legal commitments amounted to EUR 15.5 million in 2016. The total volume decreased compared to the previous year, although the total number of transactions increased.

4.3.2. *Payments*

Payments in 2016 were EUR 21.4 million.

4.4. **Monitoring**

The Commission has direct responsibility for implementation of most projects (direct management). The level of monitoring by Commission staff is very high, with constant contacts with contractors, "spot-check" visits, site meetings and steering committees meetings. The PMU continued to support the Commission with the monitoring implementation of grant contracts/projects awarded to local communities for their development, to SMEs and rural enterprises, to Civil Society Organizations, and to schools and vocational education and training organisations, while also supporting grant beneficiaries in the application of EU rules for grant contract implementation, including for secondary procurement.

The TAIEX monitoring was conducted through Project Steering Groups, aimed at stock-taking, progress evaluation and planning for the future period. TAIEX logistics are monitored through the on-line TAIEX Management System.

4.5. **Audit and controls**

The European Court of Auditors reported in early 2016 on the follow-up to the 2012 TCc Aid Programme audit. According to its findings, no follow-up action is required. Also, a detailed external audit of internal control mechanisms was carried out in order to identify potential improvements in assurance following the 2015 transfer of the Task Force to the Directorate-General for Regional and Urban Policy. The auditors reported in 2016 and their findings were streamlined into the integration of the former Task Force into the Structural Support Reform Service. In autumn 2016, DG NEAR conducted an ex-post audit on selected payment transactions and related procurements and contracting procedures under direct management, reporting that they were free from material errors. A contract was signed for the expenditure verification of 15 grant contracts awarded under the grants scheme for *SME development III: modernising products and services*. This work will continue during 2017.

4.6. **Evaluation**

A significant improvement in statistics within the TCc will be necessary to accompany the future *acquis* roll-out.

Following the 2014 assessment of CMP operations by the Equipo Argentino de Antropologia Forense (EAAF), more visits were made by the EAAF in 2016; these were devoted to field operations and training of scientists. An ex-post evaluation of SME grant schemes was contracted to the PMU and was scheduled to start at the beginning of January 2017.

4.7. **Information, Publicity and Visibility**

Overall, there were 138 visibility and communication actions in 2016. The highlights in 2016 were: rural tours to 4 different locations outside of Nicosia, sharing information with women's groups about EU rural development policies and available EU support and opportunities, a public information event for the Technical

Committee on Cultural Heritage; skills-development sessions for youth in several locations to boost the job-searching skills of unemployed young people and to promote local and EU employment/volunteering portals; the European Science and Fun Day, in which 600 high-school students participated. Europe Day was celebrated with a large-scale outdoor event with more than 450 participants. Green Week was celebrated with a series of events including a panel, film-screening, an outdoor event for an awareness campaign, and a battery collection competition, which resulted in the collection of more than 2,000 kg of used batteries from 41 schools. A Traffic Safety Short Video Competition was also organised to raise safety awareness amongst young people.

4.8. Consultations with the Government of the Republic of Cyprus

Meetings were held with representatives of the Government of the Republic of Cyprus, in particular when senior Commission officials visited the island. The Commission continues to rely on the Government's cooperation for verification of property rights, and also meets regularly with the Permanent Representation in Brussels. In March 2016, the Commission made a general presentation of the previous year's developments under the Aid Programme, hosted by the Ministry of Foreign Affairs, an annual occurrence.

5. CONCLUSIONS

The Commission remains committed to supporting the settlement process under the UN auspices, and it will make use of all possibilities under the programme to facilitate initiatives arising from the process.

The Commission continues to deliver assistance under the Aid Regulation to facilitate the reunification of Cyprus by encouraging the economic development of the Turkish Cypriot community, through work under its six objectives. It has been shown that TAIEX support and project support under Objectives 1 and 2 of the Aid Programme (infrastructure investments and supplies, technical assistance grants) had a positive impact on the work of the bi-communal Ad-Hoc Committee on EU preparations, which operates under UN auspices, since TCc participants demonstrated a significantly improved awareness of the *acquis*. During 2016, assistance continued to focus on areas that present particular problems with future *acquis* compliance.

In view of the capacity constraints, limited human and financial resources and gaps in readiness for the future *acquis* roll-out, the sustainability of projects must be carefully considered. The Commission has remained active in supporting particularly complex projects for periods after the hand-over to beneficiaries. Major infrastructure projects are, however, now operating and maintained successfully by the beneficiaries. The track record of past assistance and the maturity of projects will be reflected in future programming exercises.